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The OPA Veto

THIS Letter goes to press after President Truman's veto of the Office of Price Administration extension bill, but before the Congress has given its answer to his request for an extension of OPA's life with less limitation on its powers. Thus it is uncertain what the fate of price control will be. Believing in price control, the President has nevertheless taken a position which is equivalent to saying that if the country cannot have stiffer control than the bill provided, it had better have none at all. He has described graphically, in words revealing anxiety and alarm, the results he feared if he permitted the bill to become law, and presumably he would expect the results of ending price control completely to be even more alarming. But as the situation stands, unless Congress is willing to recede from its amendments to the Act, price control is permanently at an end. The President has chosen to back his desire for a stronger OPA against the risk of having no OPA at all.

Since the action of Congress will be of controlling importance, there is no basis at this writing for comment upon the outlook, but only upon what has happened. The President and the OPA officials wanted OPA extended without material change in the law. From the beginning of the debate they have maintained that OPA is the vital defense—frequently they have seemed to consider it the only defense—against a disastrous inflationary spiral. They have defended its record against criticism, and they have painted a dire picture of what would happen to prices and living costs if its powers were substantially amended.

Congress, on the other hand, has been impressed by other considerations. It has heard convincing testimony that production has been handicapped and restricted by unwise pricing, unrealistic regulations, and interminable delays in getting relief. It has seen innumerable instances of distortions in supply and distribution which have dried up the flow of goods in some markets and some price ranges, while products were routed into black markets through unnatural and inefficient distributing channels. It has seen gross inequalities in the operation of OPA formulas, as for example in the ceiling prices given old and new producers of the same articles. It has observed the spread of evasion and outright disregard of ceilings, and is disturbed by the moral breakdown which comes when violation of law is popularly condoned. It has distrusted the philosophy of planning and control which the OPA represents; undoubtedly part of its opposition arose from the feeling that some OPA supporters were anxious to prolong controls for their own sake.

Causes of the Wage-Price Spiral

Finally, many of the anti-OPA Congressmen doubt that OPA is the dominating factor in the fight against inflation that officials claim it is. They see prices as results of other causes and are not convinced that suppression of the consequences of inflation is a cure for inflation, or even that it can be attempted without worse consequences. Many place responsibility for the acceleration of the wage-price spiral during the past few months upon the same planners who now claim that drastic and rigid price controls are necessary to suppress the spiral.

To people who have followed economic developments over the past year the story is a familiar one. After V-J day the opinions of experienced business observers, who were convinced that reconversion need not be prolonged or severely depressing, were passed over in favor of the opinions of economists in government agencies, who held that depression and huge unemployment were threatened, and argued that the way to avert both was to raise money wages. The argument was supported by official statements and departmental memoranda, circulated to the public, designed to show that industry could pay large wage increases without raising prices. President Truman accepted this analysis in its essentials and wage policy became firmly fixed upon it.

When the wage increases were put through, however, it became apparent that they could not be absorbed without price increases. The wage-price spiral was under way. At the same time the continuation of huge government spending and the maintenance of the low interest rate policy have been basic inflationary factors. Against this background of inadequacies and defects of price controls the protestations that inflation could be averted only by maintaining them inflexibly have seemed to many people to dodge the question, — to resemble an effort to stop a flow of water without cutting off the pressure.

The Legislative Deadlock

These are the opposing considerations which have produced the present legislative deadlock. Both sides have been unyielding. The bill as finally passed can be fairly criticized, as were the Senate and House bills, on the ground that it would have created difficult administrative problems, since most producers and distributors would be entitled to apply for repricing under new formulas or other provisions. The OPA would be inundated, particularly in view of its personnel difficulties. On the other hand, OPA officials, with their unbending insistence that the act be extended without any real change or limitation upon the agency, were deplorably uncooperative. The dire pictures drawn by Mr. Bowles and others, to show what might happen if their powers were curbed, affronted Congress, which saw in them propaganda and pressure group tactics rather than an objective inquiry into the facts and search for the best solution.

An objective study of the problem could have been based upon two assumptions, one, that price controls are inherently undesirable, and, two, that their temporary extension would nevertheless be justified if it would bring about an orderly rather than a violent transition to free markets. An orderly transition could be provided for legislatively in either of two ways. One would be to write into the Act formulas for decontrol and for more liberal pricing; the other would be to rely not upon formulas but upon a strong declaration of principle and directive to the administrative authority, — a directive not to fasten controls on the economy, but to remove them in an orderly way. Choice of the second alternative necessarily would require placing decontrol in the hands of administrators whose belief in and desire to return to the free market system was above suspicion, and who would be unprejudiced and objective.

The second of these methods probably would have worked better than the first. It assumes, however, a degree of objectivity and cooperation in meeting the problem — between the executive authority and Congress — which has not been forthcoming. The OPA officials chose to denounce all restrictions upon them, and to spend vast sums to enlist public support for an uncompromising attitude, instead of giving all-round cooperation in working out a program to use the transition period wisely and effectively. Congress, which undoubtedly wanted to keep OPA alive and functioning for a time as well as to rectify its deficiencies and assure that it would put itself out of business eventually, was probably not sufficiently considerate of the administrative problems. President Truman stood pat on his request for extension of the agency without limitation of powers, until in his veto message he proposed a compromise which if offered earlier in the debate might have oiled the troubled waters.

Consumers' Protests

Most thoughtful people doubtless find it as hard to formulate sound views on these perplexing questions as the legislators do, and the headlines go as usual to the vociferous. Press dispatches have told of demonstrations in Washington by "consumers' representatives" against any modification of the powers of the OPA. The New York Times of June 27 carried as first page news a proposal by Mildred Gutwillig, Chairman of the New York City Consumer Council, for a boycott or buyers' strike against high prices for certain stated manufactured articles.

Everyone shares the concern over rising living costs. It may nevertheless be asked where these groups were when the wage increases which have caused the prices of these manufactured goods to rise were being initiated. Why was their voice not heard in support of stability in the price structure and living costs at the time when the demands were made which set off the upward spiral? What would have happened to production if the OPA had not permitted prices to rise as costs increased?

Of course these groups are repeating the error into which the Administration itself fell, namely, the belief that wages could be raised without increasing prices. The incorrectness of this belief has now been fully demonstrated, but the tendency to place the responsibility anywhere except where it really belongs persists.

The Price Rise

Each of the major wage increases has raised production costs, and each has been followed by price increases, sanctioned by the Office of Price Administration. Steel wages went up 18½ cents an hour, and the price increased $5 a ton. The wages of the soft coal miners were raised 18½ cents an hour, plus the welfare fund and other extras; soft coal prices have been raised an average of 40½ cents a ton. The strike in anthracite coal was settled by

wage concessions which required a price increase of $1.15 a ton in household sizes and of 91 cents on the average.

The railway wage increase of 18½ cents an hour has been followed by an "emergency increase" in railway rates running from 3 to 6½ per cent plus an additional 5 per cent in the northeastern territory. These higher freight rates will add a further 8 cents a ton to the delivered price of both soft and hard coal. Moreover, the advance in freight rates is only a part of what is to be expected, for it falls far short of making up for the increase in railway costs. The Interstate Commerce Commission still has to deal with roads' application for a general rate advance.

Iron ore prices have been raised 50 cents, which together with the higher coal prices will require an increase in pig iron prices. The cost of producing steel is affected by all of these raises, and the cost of coal, steel and transportation affects the cost of everything produced. Automobile prices have been lifted, and so have copper and lead, to make wage increases bearable.

This is only an abbreviated list of the price increases. Advances in imported commodities, as described in a later article in this Letter, are adding their influence to the general rise. The official wholesale price index of the Bureau of Labor Statistics has been rising in recent weeks at a rate approaching 20 per cent per annum. The consumers' price index, as the official cost of living figure is now called, rose between the middle of March and the middle of May at the rate of 8 per cent per annum. This was before many of the recent price increases took effect. Scarcities, black markets and deterioration of quality have created unusual difficulties in the compilation of this index, which therefore may understate the true rise.

The foregoing price adjustments were made necessary by wage advances. They were sanctioned by OPA, and there will be more such price increases, whether OPA is functioning or not, as wage increases go around the circle and their effects spread. This in itself is a comment upon the relation of OPA to the progress of inflation. It should be remembered if claims are made, on behalf of a defunct OPA, that it could have suppressed price increases. Another point to remember is that if OPA ends black markets end also, for there can be no violations of law if there is no law to violate. In commodities whose distribution has come to be largely through black markets, what happens to prices should be judged in relation to black market quotations as well as official ceilings.

Production and Economy the Cures

Apart from these essential adjustments, the question is, what happens to prices now? As stated at the beginning of this discussion, it is not yet certain whether Congress will revive OPA or refuse to do so. But if free markets should now be restored the main question is whether speculative increases will follow, with people taking every possible advantage of the situation without regard for the general welfare; or whether people will exercise restraint. They will be most likely to exercise restraint if they can see an ample supply of goods and materials heading for the markets. Is the country far enough along in overcoming its production handicaps to give promise of enough goods to balance the markets in the early future? Obviously the answer depends upon general cooperation, hard work, and productive efficiency.

People dread inflation. But all people share responsibility for maintaining economic order and stability. There are four lines of defense against the menace. First and most important is the need to get the industrial organization going on the production job of which it is capable and which is so desperately needed. Second is the exercise of wisdom by all groups, including business, labor and agriculture, in not trying to get more out of the situation than it can yield in real and lasting benefit, not at the expense of others. Third is restraint by consumers; scarcity should be met by economy, not by a mad scramble by each to get as much as if there were plenty for all. Fourth is the attack on the basic inflationary forces: the expansion in the money supply, budget extravagance and deficits, and credit policy.

The headlines in the press today show the preoccupation of many people and groups with ideas of self-interest. Union leaders think the great need of the time is higher wages for industrial workers. Other groups want increased incomes. Yet higher incomes cannot improve the general welfare or raise living standards unless they are accompanied by equivalent increases in production. The effort to get more goods or other benefits out of the system than it can give at the time is what keeps prices moving upward.

Proposals for New Monetary Controls

In June the long-awaited report to Congress by the Board of Governors of the Federal Reserve System on postwar credit policy was made public. This report, which is embodied in the Board's regular annual report for 1945, is an important document, analyzing the present monetary situation and inflationary pressures, outlining the policies deemed appropriate for the postwar period, and proposing new and extensive powers for control over the banking system. The statement is of interest not only to bankers, but to everyone who is concerned about the working out of a monetary and credit program that will be able to

play its proper part in restraining inflation and promoting stability, without at the same time involving us in a new maze of controls that would carry us further down the road of government regimentation.

The report begins with an excellent portrayal of the basic causes of inflationary pressures. It reviews the war financing and shows how, in consequence, the country's supply of currency and bank deposits usable as cash has vastly increased, and "is and will continue for an indefinite time to be much in excess of available goods." It declares forthrightly that, under such conditions, and with the heavy drains of war financing no longer existing, "public policy calls for vigorous attack on the basic causes of inflationary pressures." This, in turn, requires that the Government "stop and reverse, if possible, the process whereby it has created bank credit."

How, then, does the Board propose that the Government "stop and reverse" these processes?

There is, first, the program now under way of using Treasury surplus cash built up by the Victory Loan to retire debt, primarily that held by the banks. This, as the Board points out, is anti-inflationary in reducing bank deposits that are potential spending power.

Second, the Government should not only balance its budget, but strive for a surplus, so that debt retirement, begun out of Victory Loan surpluses, can be carried forward. To this end, the Board recommends "prudent" economy and avoidance of further "general reduction" of taxes.

Present Control Powers Held Inadequate

But such measures, the Board contends, will not be sufficient. For, even at best, these processes of reducing the redundant money supply will be "slow and gradual," and there is always danger that they may be offset by expansion of credit in other directions. This brings us to the nub of the Board's argument, that "at present the country's central banking mechanism lacks appropriate means, that may be needed, to restrain unnecessary creation of bank credit through continued acquisition of government or other securities by the commercial banks."

Why is this the case? One reason, as the Board explains, is its "assurance to the Treasury that the rate of ⅞ per cent on one-year certificates will be maintained, if necessary, through open market operations," which "means in practice that the Federal Reserve stands ready to purchase short-term government securities in the open market in order to prevent short-term interest rates from rising above the level the Government is now paying." This assurance the Board declares to be "necessary from the standpoint of the Government's financing operations," and "was given because the Board does not favor a higher level of interest rates than the Government is now paying."

Yet because of this policy, the Board goes on to say, "it is possible . . . for commercial banks to sell short-term, lower-yield government securities to the Reserve System and thus acquire reserves which, on the present basis of reserve requirements, can support a sixfold expansion of member bank credit." This means, in turn, that "to the extent that commercial banks use these reserves, either for their own account or in loans to customers, for the purpose of purchasing longer-term, higher-yield government bonds or other securities, the money supply can thereby be increased on the volition of the banks irrespective of national monetary policy."

To the natural question, why not release the Reserve Banks from this assumed obligation to buy government securities at the pegged rates, the Board argues that the resultant rise in interest rates would increase the cost of servicing the national debt and have undesirable repercussions in the market for outstanding government securities.

In other words, here we have manifested again the old dilemma which has plagued the monetary authorities since the end of the war — of wanting to control debt monetization and credit expansion, and at the same time of not wanting to see interest rates advance.

The New Powers Proposed

It is in the face of this dilemma that the Board recommends for the consideration of Congress three new proposals for expanding monetary controls:

1. To empower the Board of Governors to place a maximum on the amounts of long-term marketable securities, both public and private, that any commercial bank may hold against its net demand deposits.
2. To empower the Board of Governors to require all commercial banks to hold a specified percentage of Treasury bills and certificates as secondary reserves against their net demand deposits.
3. To grant additional power to the Board to raise reserve requirements, within some specified limit, against net demand deposits.

These represent important extensions of federal powers, and the Board does well to suggest them for consideration and study rather than urge them for early adoption. In presenting these proposals, the Board has sketched only the broad outlines, leaving a great deal unexplained, such as definition of "long-term" securities, the matter of limits to powers, and the legal means by which nonmember banks would be brought under its authority. Hence, any analysis at this time must be preliminary and in terms of broad principles

and the raising of questions, rather than in terms of precise technical arrangements.

Limitation on Bank "Long-Term" Holdings

Proposal Number 1—to place a maximum on the amount of long-term marketable securities that a commercial bank may hold against its net demand deposits — evidently looks towards placing a check upon the alleged practice cited above of commercial banks selling their short-term, low-yield governments to the Federal Reserve, thereby acquiring additional reserves which they used on a multiple basis to bid away longer-term, higher-yield bonds from nonbank investors, with consequent increased monetization of debt.

As a matter of fact, it is to be noted that, despite the strong inducement to such switching afforded by a more or less pegged interest rate pattern that has ranged from ⅜ per cent on Treasury bills and ⅞ per cent on certificates to 1½ and 2 per cent on medium and long-term bonds eligible for bank investment, the banks as a group have, as statistics show, consistently maintained an average maturity of about four years on their government security portfolios. While positions of individual banks have, of course, differed, the banking system as a whole has only about kept pace with the average run-off of maturities that occurs with the passage of time.

What the proposed new restrictions would mean in actual practice would depend a great deal upon the definition of "long-term." In the market, the accepted usage of the term is to describe securities maturing in over ten years. But should this be the definition, it is difficult to see how the proposal could be very effective in preventing further debt monetization. For with the commercial banking system holding some $31 billion of time deposits, against which the proposed restrictions as to investment would not apply, and with the system holding only some $6 billion of governments of over ten years to call dates, it is evident that even after liberal allowance for present long-term holdings of non-federal securities, the capacity of the banks to absorb long-term securities within the proposed rules would still be very large.

For action under the proposal to be truly effective, "long-term" apparently would have to be defined as something quite different than is customarily understood. Which raises a serious question as to what the Board really has in mind. Would "long-term" mean anything over five years, or even anything over one year?

Manifestly, any interpretation of the latter nature would mean a decided departure from banking practices in the past. All sorts of difficulties may be envisioned. If applied rigidly, the obvious result would be to force an unloading of the proscribed "long-term" securities on the market. At best, the provisions, if applied uniformly and with any force at all, would hit different banks differently, raising important questions of equity, of potential losses on securities acquired at premiums, of losses of necessary current earnings, etc.

While the Board, it is true, suggests some administrative flexibility authorized "to meet differences among banks," this could conceivably be summed up in the single term — discrimination. Certainly, the task of applying such "flexibility" fairly in a country of 14,000 banks would be a formidable one.

Required Bill and Certificate Reserves

The second proposal — to require the commercial banks to hold a specified percentage of Treasury bills and certificates "as secondary reserves" against their net demand deposits — would seem to raise equally, if not more, perplexing problems. In advancing this proposition, the Board observes:

> This measure would result in stability of interest yields on short-term government securities and, therefore, of the cost of the public debt. Like the bond portfolio limitation, it would provide a measure for regulating commercial banks' demands for short-term government securities relative to their demands for longer-term issues. At the same time, it would leave considerable freedom for movement of interest yields on non-government paper of short-term maturity.

What the Board does not say directly, but which seems implicit, is that the plan, by forcing banks to hold particular kinds of government securities in specified amounts, would enable the Treasury to pay as little interest on them as it pleased to do.

Apart, however, from this point, this proposal would encounter much the same difficulty in allowing for the different positions of individual banks that were mentioned above in connection with the bond limitation plan. Unless the provisions were applied so loosely as to exert little restraining influence, they would be harder on some banks than upon others. Banks would be forced to scramble about, trading off notes and bonds for bills and certificates. Nor would the provisions for "administrative flexibility" in applying the restrictions as between different groups of banks be any easier to work satisfactorily than under the bond limitation plan.

The day to day problems of bankers in adjusting their reserve positions would be considerably complicated by this tricky new kind of reserve requirements, notwithstanding the Board's suggestion that in meeting such requirements banks be permitted to hold vault cash or excess reserves in lieu of government securities.

More serious still are the possible restrictive effects of the proposal on bank commercial

lending operations. Apparently the very banks most active in the community in commercial lending, and hence with the lowest percentages of governments already in their portfolios, would be most likely to be penalized. A bank making a new loan, thereby expanding its deposits, might find itself having to borrow at the Federal Reserve at the 1 per cent discount rate, or sell relatively high-yield notes and bonds, not only to gain reserves to cover the regular reserve requirements but to be able to buy, *in addition*, the required amounts of ⅜ per cent bills or ⅞ per cent certificates. It may well be questioned whether this type of penalty reserves to encourage resumption by the banks of "their normal peacetime functioning in the financing of commerce, industry, and agriculture," indicated by the Board as a desirable objective.

Power to Raise Reserve Requirements

The third proposal — to grant additional powers to the Board to raise member bank reserve requirements — has as its stated purpose to "strengthen the capacity of the Federal Reserve to prevent credit expansion on the basis of additional reserves obtained through gold imports or return flows of currency from circulation."

Since the Reserve Banks, however, already have ample amounts of government securities which they could sell in order to mop up any excess funds resulting from gold imports or redeposits of currency, it is not clear why this additional power is wanted.

As the Board itself recognizes, with present conditions of relatively small excess reserves increases in reserve requirements would force liquidation of bank assets and raise interest rates unless the Reserve Banks come to the rescue with additional funds supplied through open market operations. Thus, as the Board says, "Under a continued policy of maintaining the existing level of short-term interest rates, the principal effect of an increase in reserve requirements would be a shift of government securities from the commercial banks to the Reserve Banks."

Existing Powers Sufficient

From the brief review presented here the reader may perhaps get an idea of the many great uncertainties and complexities involved in these proposals. We have suggested some of the difficulties and possible implications. That the proposals would involve a far-reaching extension of controls over the banking system, substituting in large measure for the judgment of individual bankers a complicated system of new rules and regulations dictated by Washington, is clear. The great danger is that banking will be put in such a strait-jacket as to seriously impair its ability to carry on the normal functions and serve the public.

Of course if the Board's recommendations were the only conceivable way to handle an inflationary situation, we might have to give serious consideration even to such dangerous proposals, for inflation itself is a grave danger. But it is far from clear that there is any need for such extreme powers.

The fact is that, as has been pointed out again and again, the authorities already have very large powers at hand if they will but use them. A first step that has already been taken is the use of the Victory Loan balances to retire debt, and particularly debt held by the banks. Another step was the elimination by the Federal Reserve of the ½ per cent preferential discount rate on loans to member banks secured by short-term government collateral. Still another measure that is being taken is the drive to increase sales of savings bonds and to persuade present holders to keep the bonds they have.

The problem of credit control is basically related to the budget position. If expenses are kept down to the point where the country has a budgetary surplus and is retiring debt, the amount of securities held by the commercial banks and by the Reserve Banks will be steadily reduced, thus reducing the inflationary pressures.

Then, of course, it is essential that the country's central banking system shall be free to use in the public interest the recognized instruments of credit control — the discount rate and open market operations, which were conferred upon it by the Federal Reserve Act. For the Board to plead that it cannot use these powers because of a commitment to the Treasury to maintain current interest rates at their unprecedentedly low level is far afield from the intent of the authors of that Act.

Small vs. Big Business

When President Truman, speaking last month to the graduating class of Washington College at Chestertown, Md., declared "I would much rather see a thousand insurance companies with $4,000,000 assets than one insurance company with $4,000,000,000. I would rather see a hundred steel companies than one United States Steel Corporation, and I would rather see a thousand banks than one National City Bank," his remarks were widely quoted as indicating presidential antipathy towards "big business" and as representing another of the attacks upon "bigness" such as have cropped up again and again in our political life.

Actually, it seems unlikely that the President had any such intention. When one reads the full text of his remarks, and remembers the

setting of the small college community in which he spoke, it is easy to see how he fell under the spell of his quiet surroundings. In this mellow mood, he speaks not only as an "advocate of small business," but as an advocate of "small educational institutions" and "small communities." Who among us has not experienced this mood at times! As the New York Herald-Tribune commented editorially after the speech, "Probably none of us does not have similar moments of nostalgia when we rebel at the bigness and the speed and tensions of the present age and wish we could turn the clock back to what we like to think of as 'the good old days.'"

The fact is we all sympathize with a great deal of what the President says about small communities, small educational institutions, and small businesses. A good many people might go even further than the President ventured and express some yearning for the "good old days" of small government, when the federal budget was less than a billion dollars and there was no great and costly bureaucracy scattered through a multiplicity of departments, offices, boards, commissions, and agencies regulating our lives. They might think there was something to be said also on the question of small versus big labor unions, with the latter spread over whole industries and having power to shut down production and impose terms on the public almost at will.

We all know the wholesomeness that can be in the simpler life of the villages and farms, and the evils that come from overcrowding of people in great cities. We know the virtues of the small college where students and faculty can have a closeness of contact that is difficult, if not impossible, in the large universities. We know the advantages of small business: giving more people a chance for a proprietary interest in business enterprise instead of being merely hired hands, affording in each case, as the President expressed it, "a chance for some two or three men to be 'big shots' in their communities," and making possible closer relations between employees and the "boss", with better opportunities for understanding each other and avoiding strife.

Big Business and Big Production

But, for all our appreciation of, and sentimental attachment to, small business, we must not fail to recognize the essential role played by big business. We could never supply our people with the things they have become accustomed to have without "big business", which makes possible mass production and lower costs that have brought automobiles, radios, mechanical refrigerators, and countless other articles of otherwise costly manufacture within range of the average pocketbook. We could never have turned out the stream of products that has given us the highest standard of living of any country in peace—or mobilized so quickly and effectively the vast resources which overwhelmed the enemy in war — with little steel companies, little automobile companies, little railroads, or little financial institutions.

Recognition of the power of large scale production is nowhere greater than in the planned economy of Russia, where the recent production of the first 100,000 kilowatt superheated high pressure steam turbine was hailed as a symbol of the Soviet Union's growing industrial might. This, according to the Moscow News, is "merely a sample of a whole line whose serial production is to be undertaken by the Leningrad plant," with similar large scale development under way in other branches of industry.

While it will be understood that the President was speaking figuratively and not attempting to be precise, it may be interesting to consider that a steel company one-hundredth the size of the United States Steel Corporation would have an annual ingot capacity of only 323,000 tons. When the United States Government during the war built its Geneva steel plant in Utah, it invested $200,000,000 for an annual ingot capacity of 1,283,000 tons, and even at this heavy cost failed to provide a rounded finishing capacity by steel industry standards. A bank one-thousandth the size of The National City Bank of New York would, under present banking laws, have a lending capacity to any one borrower of but $22,000.

Big Businesses Today the Small Businesses of Yesterday

Moreover, in talking about small business it is necessary to bear in mind that business, large and small, is not a static but a constantly changing group, in which numerous new enterprises are always crowding in, some are falling by the wayside, and others — more efficient, energetic, and resourceful than the rest — are pushing ahead to eventually join the ranks of big business, in some cases displacing the former leaders. It is a natural human tendency to favor the "little fellow" and want to give him a lift. But surely it is illogical to take a hostile attitude towards those which by virtue of such aid, or through their own efforts and success in serving the public, have forged ahead of the crowd and become big.

The history of the great American industries of today is the history of concerns that have grown up in this way. It is the story of Carnegie, of McCormick, of Eastman, of Ford, and of many others. Almost daily in the press the story is told and retold of men who have seen their businesses build up from the bottom. Notable examples within the past month have

been accounts of the careers of Louis K. Liggett, founder of the United-Rexall Drug Co., which last year had sales of $158,000,000; Walter A. Sheaffer, founder of the W. A. Sheaffer Pen Co., with sales of $20,000,000; and George A. Hormel, founder of George A. Hormel & Co., meat packers, with sales of $114,000,000. The career of Mr. Hormel, as recounted in the New York Times, illustrates so well how our successful enterprises have risen from small beginnings that we quote as follows:

> The son of immigrant parents, Mr. Hormel built his packing house chain from a small country meat market at Austin (Minn.), which he purchased in 1887 . . . He became interested in Austin on a wool buying trip for a Chicago firm, and borrowed $500 from his employer to rebuild and open the meat market, which had been damaged by fire.
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> With a few dollars he was able to scrape together, Mr. Hormel bought an old creamery building on the outskirts of Austin and converted it into a packing house. Before long, he controlled most of the meat market business in that section.
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> Ice plants in those days were practically non-existent. Most of the other meat shops were small and butchered their beef and pork only as demands called for it. But Mr. Hormel's business rapidly was becoming too large for such an inadequate system. He installed an ice storage plant in his factory and stocked it with ice he cut from Cedar River in winter.
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> Determined to build his business larger and larger, he poured virtually every spare dollar of profit back into it . . . In 1924, the Hormel plants reached a total production of 1,000,000 hogs killed. They now have a capacity of 5,000 a day, as compared with 610 for the entire first year the business was founded.

We need to reflect on these things, for we tend at times to forget the essential democracy of a business system in which success stories like these are traditional. Such stories have been America's pride, and they explain in large measure her preeminence as an industrial nation. This spirit of enterprise is not furthered, however, by damning those concerns which through enterprise grow to large size and large service to the public.

Big and Little Business Both Needed

The moral is that any concept such as "small versus big business" represents a false issue. This country needs *both* big business *and* small business, and in a freely competitive system the natural American genius and striving for accomplishment, that has been demonstrated so often in the past, can be relied upon to preserve a sound balance between the two.

After all, the main thing is how the public is best served. While mere bigness is no guarantee of efficiency, size is an advantage in tooling up to produce cheaply and in carrying forward the costly experimental work that is responsible for technical progress. In the field of distribution, the chain store is "big business", and the lessons it has taught have revolutionized merchandising, bringing better goods, better service, and lower prices to the public. Small merchants everywhere are doing a better job because of the example set.

Where big business goes stale and becomes too unwieldly or unprogressive to continue to "deliver the goods", it won't be long in finding itself taking a back seat. Nature has its own anti-trust laws which operate more surely and swiftly than the courts. Similarly, small business will prosper or languish according to how it serves public needs.

Finally, those who are genuinely concerned with the preservation of American business democracy might well consider the impact of burdensome taxes which falls heaviest on the small and growing concerns, as well as the effects of policies with respect to wages and working conditions that raise costs and are particularly hard on concerns of limited capital resources. It is influences such as these — for which government bears a large measure of responsibility — rather than the competition of the so-called "corporate monopolies" that constitute the greatest handicaps to small business and tend to entrench more solidly the position of the larger concerns.

Commodity Price Trends Abroad

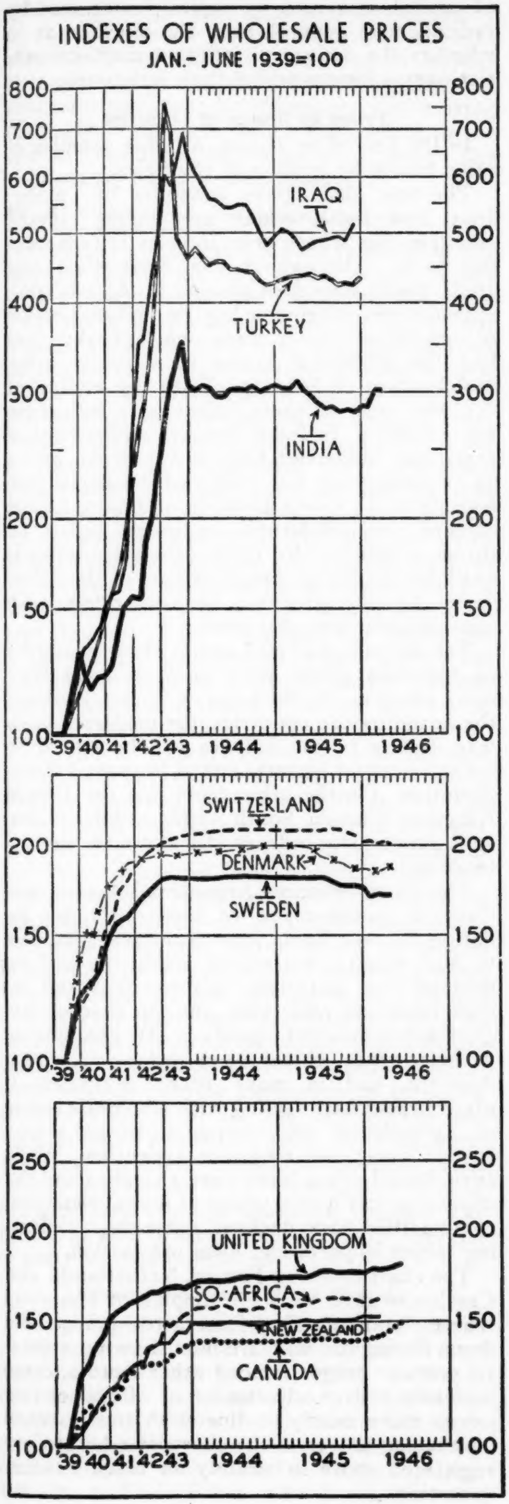
At this stage of world recovery from war, price movements abroad have a double interest. They reflect the progress or lack of progress in restoring orderly conditions of production, trade, and finance. They are significant to the United States as a great trading nation because of their competitive aspects and possible repercussions on prices at home.

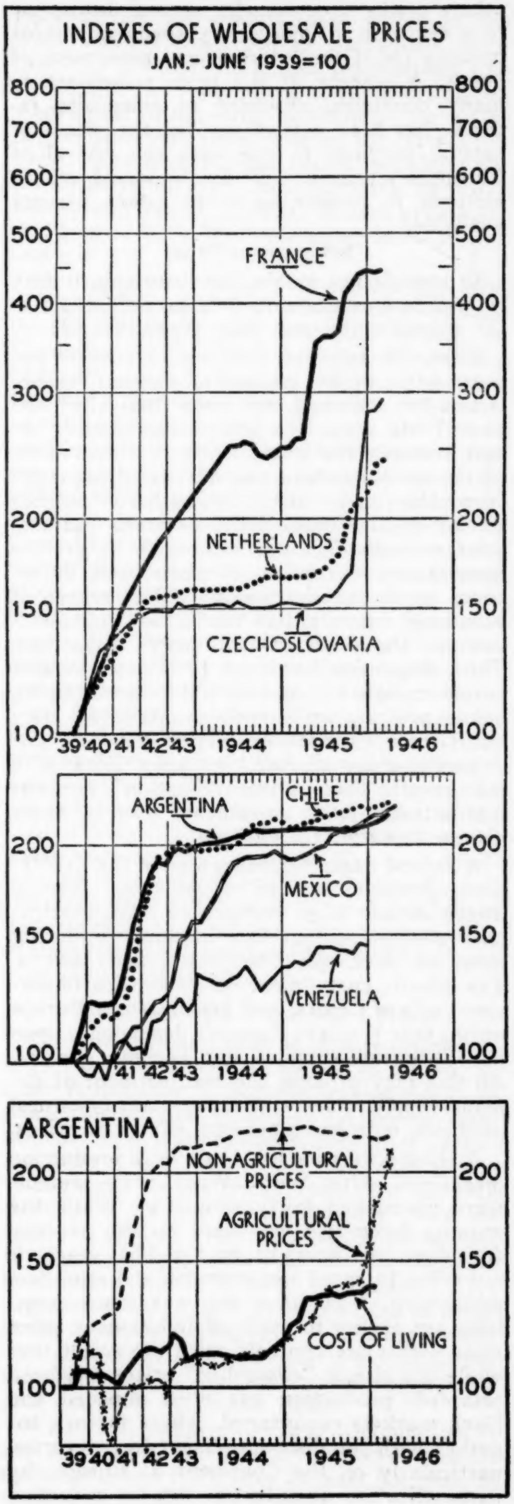
In attempting international price comparisons, it is necessary to recognize the inadequacies of the data. Price indexes are questionable devices at best, and especially doubtful in international comparisons where differences in index make-up are involved. Being based on posted quotations, price indexes do not reflect black markets, and for many countries no recent figures are available.

Nevertheless, the subject of prices is of such importance as to warrant a brief review of the evidence at hand. People remember what happened after World War I when world prices generally experienced a renewed rise starting early in 1919 and culminating in a crash and the short but sharp depression of 1920-21. They wonder whether this pattern will be repeated.

Inspection of the course of the indexes since the end of the war shows a general upward trend, though with notable exceptions.

In some countries prices are still rising rapidly under the influence of budgetary deficits and inflated issues of currency and credit, cheap money, scarcity of goods, and advancing wages and other costs. In other countries, the rise is being kept under control; while in still


INDEXES OF WHOLESALE PRICES
JAN.- JUNE 1939=100
IRAQ
TURKEY
INDIA
SWITZERLAND
DENMARK
SWEDEN
UNITED KINGDOM
SO. AFRICA
NEW ZEALAND
CANADA
1944
1945
1946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JAN.- JUNE 1939=100
FRANCE
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CZECHOSLOVAKIA
ARGENTINA
CHILE
MEXICO
VENEZUELA
ARGENTINA
NON-AGRICULTURAL PRICES
AGRICULTURAL PRICES
COST OF LIVING
1944
1945
1946

others prices have actually started down, due to a decrease in inflationary spending and/or opening up of the international movement of goods. A feature of the price movement in many countries, obscured in composite indexes, has been a tendency for the prices of natural products to rise with the revival of European demand, and for imported manufactures to decline as more goods become available.

Influences on Prices

In speculating on the price outlook, it may be well to consider certain basic differences in the situation now and after World War I.

First, the international price structure appears to be more "compartmentalized" as between the different countries than after the first World War. The process had already begun between the wars, when the breakdown of the gold standard and advent of managed currencies and other nationalistic policies weakened the usual links between national price systems. The new war, with its greater devastation, disruption of trade, and differences in the application and effectiveness of economic controls, has tended to widen still further the international price disparities. Thus, Argentina, burdened with unmarketable surpluses, saw her agricultural prices dropping below prewar, while such countries as Italy and Greece experienced terrific inflation, due in part to desperate food shortages. Because of this greater "compartmentalization", postwar international price movements may be more diverse this time than before.

A second basic difference lies in the greater areas knocked out as world trade factors. These include large sections of Asia, particularly such important raw material producing areas as Java, the Philippines, and Malaya. The drastic curtailment of trade with important parts of Central and Southeastern Europe means that Western Europe's dependence upon non-European supplies has become greater. All this may prolong the readjustment of demand-supply relationships, especially in natural products, with corresponding effects on prices.

A third difference has to do with production incentives. After World War I price controls were abandoned fairly promptly. While the ensuing price rise was hard on the average consumer and brought on the 1920 crash, it did serve to speed reconversion and stimulate production. Now, after this war, many countries are trying to stall off inflationary price rises with price controls, with the result that while the rise in "controlled" prices has been retarded, production has been impeded and black markets encouraged. These factors, together with the discouragement to enterprise, particularly on the Continent of Europe, by nationalization of industry, drastic reduction of capital resources by capital levies, and by radicalism in general, raise the question as to whether the danger of inflation may not persist over a longer period than last time.

Prices by Groups of Countries

In the preceding charts, we give samples of price trends by groups of countries.

The first chart gives examples of Turkey, Iraq, and India, which are highly inflated countries but where price indexes are off from the peak. Throughout the Near East and India, prices were sent soaring by Allied Army expenditures, preclusive buying, and suspension of peacetime import trade, while Turkey has had the additional factor of a costly army mobilization of her own. With the ending of the war most of these inflationary influences are subsiding. In India, imports and revival of peacetime industries have lowered the prices of manufactures, but prices of industrial raw materials are rising because of heavy export demand, and foodstuffs are going higher on threat of famine. No up-to-date price index is available for Egypt, but departure of the Allied forces has brought on a business crisis, with considerable unemployment.

The second and third charts show examples of countries where price controls have been more effective. In the cases of Switzerland and the Scandinavian countries, the moderate postwar decline in the indexes can be traced to lower prices for imports due to improved transportation. On the other hand, for the United Kingdom, Canada, South Africa, and New Zealand, latest price indexes still show an upward tendency.

The chart covering Argentina, Mexico, and Chile, is symptomatic of the continuing inflation in most Latin American countries, due to high export demand for foodstuffs and industrial raw materials, public works and industrialization programs, and (in case of Argentina) armament spending. An example of various cross currents in prices in Latin America, and in many other countries, is given in the chart dealing with wholesale prices of agricultural and non-agricultural prices, cost of living, and wages in Argentina. While agricultural prices have risen sharply from the depressed war levels, prices of non-agricultural commodities have declined somewhat, reflecting larger imports and local production.

The chart covering France, Netherlands, and Czechoslovakia, shows examples of countries where "controlled" prices, after being held down during the war, are now showing a drastic postwar bulge. Among other factors, these increases reflect adjustment of official ceiling prices more nearly in line with the lessened purchasing power of the currencies heretofore registered more accurately in black market quotations.

Summarizing, the situation shows many of the inflationary potentialities that brought about 1920 and 1921, but it does not yet appear that postwar world prices have developed any characteristic pattern. Prices are still moving diversely in different areas, responding to the special conditions affecting those areas. The dominating trend is inflationary.

World Prices and American Imports

Foreign price movements are reflected in this country chiefly through higher prices of imported raw materials and foodstuffs. Together these make up the most essential part of our import trade, and thus exert an important influence on our price structure. Prices of basic raw materials abroad were held down during the war by the shutting off of demand from Axis countries; by the buying monopolies set up through the Combined Raw Materials Board, which avoided competitive bidding; and by strict control over shipping which limited the movement of cargoes. Now that European countries which were out of the world markets for six years are returning as buyers, we are forced to meet their bids if supplies are to be kept flowing. If OPA proves to be finally out of the picture, government subsidies on these commodities will no longer be lawful, and our market prices will reflect whatever we have to pay for them.

The cost of imports today has assumed new significance because of the effect of two world wars in depleting our natural resources, and in particular our high grade mineral deposits. The country's position in certain raw materials has been weakened, not critically, but sufficiently so that henceforth we must expect to reach further from our shores for supplies.

In recent months, world prices of several important raw materials have risen above our price ceilings. Of late, this has made it impossible for private importers in some lines to buy, as in new crop cocoa, carpet wools, sheepskins, and goatskins. In coffee, even a government subsidy became ineffective in matching producers' price ideas, and our ceiling has been raised 2 cents to 15⅜c. In other commodities, including nonferrous metals, crude rubber, and cattle hides, Government buying has continued at prices above our ceilings. The future of this practice depends upon the fate of price control legislation.

Advances in World Metal Markets

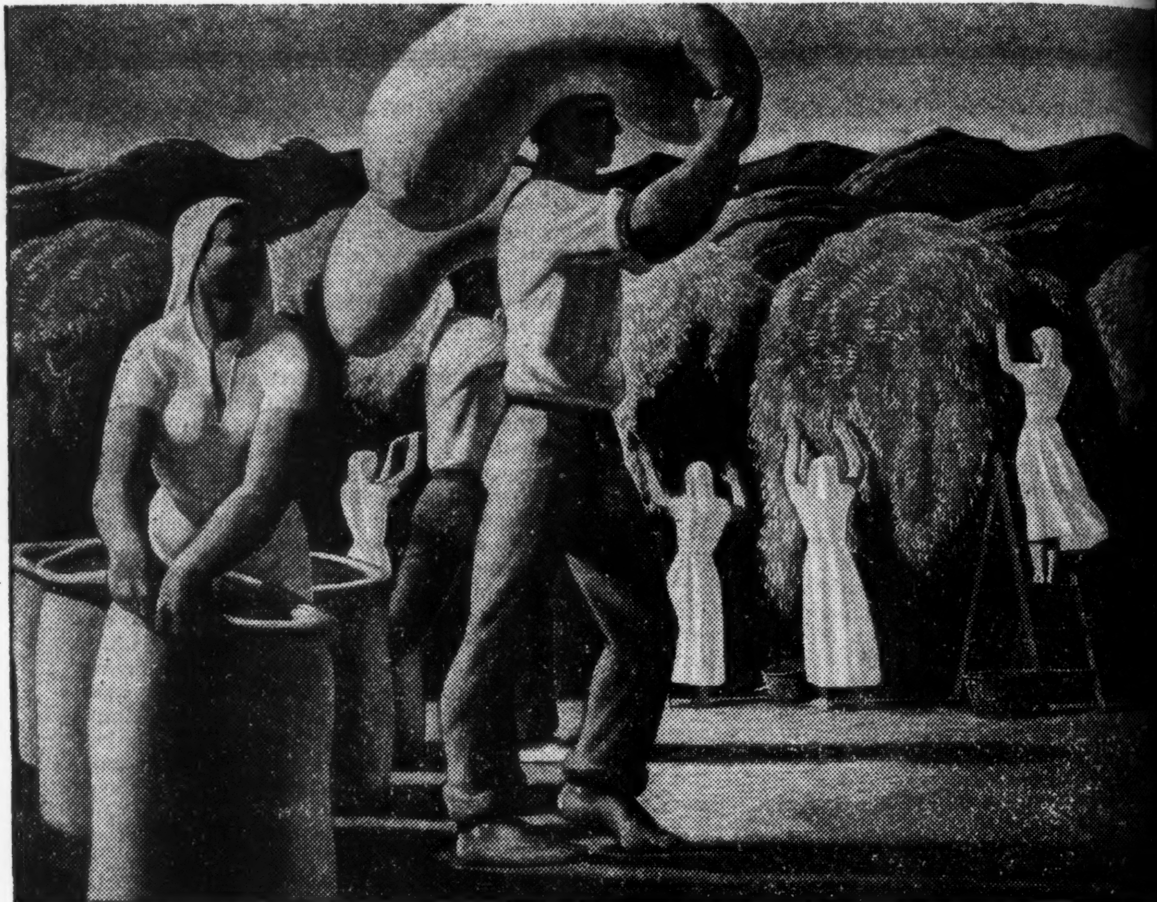
Our changed status as buyers and the effects of European demand are demonstrated in copper and in other non-ferrous metals. In March after strikes in the copper industry had begun to cause inroads into the Government's large copper stockpile, the Metals Reserve Co. bought 100,000 tons abroad for second quarter delivery, at 12½c F.A.S. New York, ⅝c more than during the war. Copper prices in the world market continued to strengthen, however. By the time our copper price ceiling was raised 2⅜c to 14⅜c in June to cover the higher wages paid in the strike settlement, the world copper price had risen close to 15c New York basis. Our next foreign copper purchase for third quarter delivery thus is certain to prove more costly than in March. Similar price raising factors have been operating in lead, zinc and tin.

During the war hides were successfully allocated, and prices held within our own ceilings, by the Combined Raw Materials Board. In December 1945, when this Board was disbanded, the International Hides, Skin and Leather Committee was formed to continue world procurement and allocation, and broadened its membership to include Western European countries. However, outside countries offered higher prices to the surplus hide producing countries and supplies available to the Committee tended to dry up. Finally, the Committee announced early in May that its buying prices for Latin American cattle hides were being increased 15 to 20 per cent. Simultaneously the Reconstruction Finance Corp. established a subsidy on hide imports into this country to preserve our price ceilings. However, Argentina suspended export licenses on hides and leather, and a press dispatch from Buenos Aires disclosed that Russia had bought 200,000 hides at $360 a ton, which is nearly 15 per cent above the relative price ceiling in the United States. Subsequently, the Russian purchase was reported cancelled. The final development in the story, announced June 26, was the disbanding of the International Committee and the end of allocations, with American importers free to buy and to sell here at 5 per cent over the purchase price.

Comparison with World War I Prices

The upward movement in import prices follows the same direction, except in metals, as after World War I. But the present rise is so much smaller that analogies are hardly warranted. Copper, for example, even after declining from a war peak of 36c, was still in the 18-20c range for nearly two years after the 1918 Armistice. During the commodity price inflation of 1919-20, hides went to 52c lb. (against 15½c currently), coffee to 23c lb. (against 15⅜c price plus 3c subsidy) and sugar to 21c (against 4.10c). Cocoa went to a peak of 23½c in 1919 (recent ceiling was 9c), while rubber sold at $1.00 in 1916 and was 35 to 55c during the inflation period, well above the 23½c being paid currently in the Far East.

What will happen to these commodities if full freedom of markets are restored remains to be seen, but for a time at least the general trend would clearly be upward.



Painting by Rockwell Kent — "Plantation in São Paulo"

Brazil's Coffee Becomes a Dollar Harvest

COFFEE is the key to trade with Brazil. The United States is the biggest single customer for Brazil's coffee, cacao beans for cocoa and chocolate, castor beans for industrial oils, babassu nuts for soaps and edible oils, and manganese for steel making.

Brazil supplies half the world's coffee demands, and the United States takes from Brazil half of that country's coffee production. United States industry needs Brazil's diamonds for industrial abrasives. Brazil's carnauba wax makes the finest polishing waxes.

Brazil is on the threshold of development. Use of her agriculture, forests, minerals, and industrial facilities is yet to be expanded. Even so, in peacetime Brazil has ranked fifth in importance in United States foreign trade.

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